Research

Real Estate Highlights

Singapore • 2nd Quarter Apr - Jun 2006

Contents

Executive Summary

- Private residential property prices in 2Q 2006 continue to expand at a modest pace, recording the highest increase in nine consecutive quarters of growth. The HDB resale market also began to show more positive signs of recovery but is expected to continue to lag the private residential market.

- The retail sector continued to be energised by revamps and A&A. The highest upward rental movement was seen in the Orchard Road vicinity with prime units achieving rates of above $60 psf. An evolving trend in malls is the inclusion of IT Hub.

- Office rentals across all micro markets continue to increase. With supply staying at stubbornly tight levels in the face of healthy demand fuelled by financial institutions, office rents will remain on course to ride the upward trend.

- The industrial sector has seen healthy demand from the setup of cutting-edge industries from biomedical sciences sector. Prices and rentals of conventional industrial space which edged upwards in 2Q 2006 are projected to expand by 2% to 4% for the entire 2006.

- Real estate investment sales hit $13.1 billion for the whole of 1H 2006, recording the largest semi-annual investment sales ever. The buoyant market was mainly fueled by collective sales of aging residential properties, large-scale REITs acquisitions and Government Land Sales (GLS).

- There was a fall in the number of properties put up for auctions mainly due to the fall in the number of mortgagee's sales. Similarly, the total number of properties sold at auctions in 1H 2006 dropped by about 15% while the total value of properties sold remained largely unchanged.

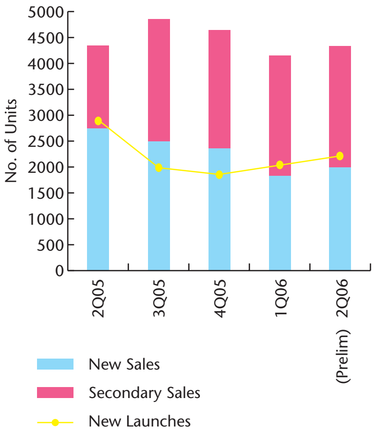
Knight Frank Newmark Global

Singapore Residential Property Highlights

Private Residential Sector

More Boutique Projects Launched for Sale

Chart 1
Private Home Launches & Sales Trends



Source: URA / KF Research

Building on the positive sentiments in the local economy and employment market, developers wasted no time in presenting their new projects to eager homebuyers and investors. Generally, the number of new developments launched in 2Q 2006 surged by up to 50% quarter-on-quarter (qoq). However, in terms of the number of new units launched, the increase was marginal at only about 5% qoq to 2,300 units. This can be attributed to the comparatively large number of new boutique developments, where the total number of apartments in each project numbered less than 60, such as Carlyx Residence, Ecoville, The Modules and Vertis that were launched in 2Q 2006. 2Q 2006 also saw the long-awaited launch of St Regis Residences, which re-wrote the record for the most expensive residential development in Singapore. Coincidentally, The Quartz, a 99-year leasehold condominium located in the northeast suburb of Buangkok, was also launches in the second quarter. It was the first major mass-market project to be launched in 2006.

The relatively large variety of new launches coupled with optimistic economic outlook were some of the key ingredients for the performance of the private residential property market in 2Q 2006 to surpass that of 1Q 2006. On the whole, developers in 2Q 2006 sold an estimated 2,000 private new homes. This is almost a 10% increase from 1Q 2006's 1,858 units. Major sales in the primary market originate from the new launches in 2Q 2006 such as The Infiniti and One Leicester as well as developments that were launched in previous quarters such as One Amber, Rivergate, Park Infinia and Kerrisdale.

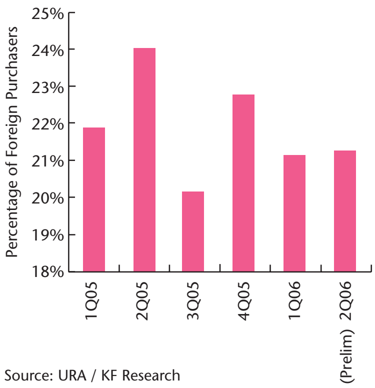
Secondary Market Volume Outperforms

"The number of new developments launched in 2Q 2006 surged by up to 50% qoq"

In 2Q 2006, the number of sales in the secondary market continues to outperform that of the primary market due to a few factors. One of the reasons for higher sales volume in the secondary market is that price-conscious buyers were attracted to the relatively lower prices of mature developments compared to that of newly launched projects. The high number of collective sales also contributed to the secondary market sales volume in two ways. Firstly, residential units that are sold collectively contribute directly to the secondary sales numbers. Secondly, the high number of collective sales has resulted in a large number of former homeowners who seek to buy completed developments after selling their homes in the collective sales. In all, the number of units sold in the secondary market in 2Q 2006 rose marginally from the first quarter's 2,333 units to about 2,400 units. Some of the units in newly completed condominiums such as Costa Del Sol and Caribbean at Keppel Bay, were actively traded.

Chart 2

Proportion of Foreign Purchasers in Singapore



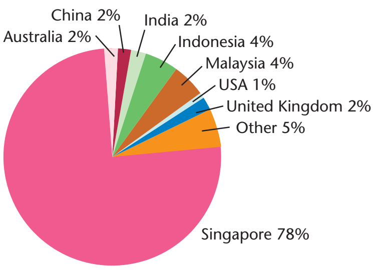
Source: URA / KF Research

Some Possible Major Launches in next 6 months

Projects	Tenure	Developer	Location	Units
Developments from Government Land Sales				
Condominium (un-named)	99-yr	NTUC Choice Homes	Yew Tee Close	140
Condominium (un-named)	99-yr	CapitaLand & Lippo Group	Tiong Bahru Rd / Alexandra Rd	390
The Oceanfront @ Sentosa Cove	99-yr	City Developments Ltd & TID	Ocean Drive, Sentosa Cove	264
The Centris	99-yr	Prime Point Realty Development	Jurong West Central 3 / Jurong West St 64	620
one-north Condo	99-yr	UOL / Kheng Leong / Low Keng Huat	one-north	425
Developments from Private Land Sales				
Ardmore II	FH	Wheelock Properties	Anderson Road/Ardmore Park	166
Botanika	FH	Tuan Sing Holdings	Holland Road	34
Blossoms @ Woodleigh	FH	Allgreen Properties	Woodleigh Close	240
Butterworth 33	FH	City Developments Ltd	Butterworth Lane	20
Cairnhill Residences	FH	Allgreen Properties	Carinhill Circle	97
Cascadia	FH	Allgreen Properties	Bukit Timah Road	584
Condominium (un-named)	FH	Fraser Centrepoints	Jalan Ulu Sembawang	73
Condominium (un-named)	FH	UOL	Minbu Road	187
King's Centre - Plot 3	FH	City Developments Ltd	Kings Centre	175
Devonshire Residences	FH	Allgreen Properties	Devonshire Road / Killiney Road / St. Thomas Walk	191
Miro	FH	Far East Organisation	Keng Lee Road	128
One Tree Hill Residence	FH	Soilbuild	One Tree Hill	48
Orchard Scotts	99-yr	Far East Organisation	Anthony Road	387
Parry Gardens	999-yr	OUB Centre	Poh Huat Rd	120
Scotts HighPark	FH	CapitaLand	Scotts Road	73
Tate Resdiences	FH	Hong Leong Holdings Ltd	Claymore Road / Draycott Drive	85
The View @ Meyer	FH	GuocoLand	Meyer Road	45
VIVA	FH	Allgreen Properties	Jalan Korma / Thomson Road	288
Developments from the Conversion of Office Buildings Sites in the CBD				
No. 1 Shenton Way	99-yr	City Developments Ltd	Shenton Way	360
The Clift	99-yr	Far East Organisation	McCallum Street	312
The Lumiere	99-yr	BS Capital	Mistra Road	167

Chart 3

Estimated Breakdown of Nationality of Purchasers in 2Q 2006



Source: URA / KF Research

Foreigners Continue to Fuel Demand in High-end Segment

Although the percentage of foreign homebuyers in 2Q 2006 remained largely unchanged at about 22% of overall number of buyers, their total numbers increased by about 30% qoq because of the surge in the total number of home purchasers. There were discernible increases in the number of buyers from some of the Commonwealth and East Asian countries such as Australia, United Kingdom, India, Taiwan, Japan and Korea. In 2Q 2006, the market also saw the return of some interest from European homebuyers such as the Danes, the Dutch and the Swiss who have previously been less active in Singapore's property market.

In 2Q 2006, most foreign homebuyers purchased private residential properties in the price range of $0.5 million to $1.5 million. These foreigners who were also mostly Singapore Permanent Resident (PR), acquired almost 50% more properties in this price range than the foreign non-PRs. With the prices of high-end luxury properties reaching new heights, there was a noticeably increase in the number of foreign purchasers in properties that are above $1.5 million. This was the result of more PRs buying landed properties and more non-PRs buying non-landed properties in prime areas. This indicates that foreign buyers are contributing to the demand and supporting the price increase in the high-end residential segment. In 2Q 2006, the largest groups of foreign purchasers in this high-end segment originate from Indonesia and United Kingdom.

Prices Grow at Modestly Accelerating Pace

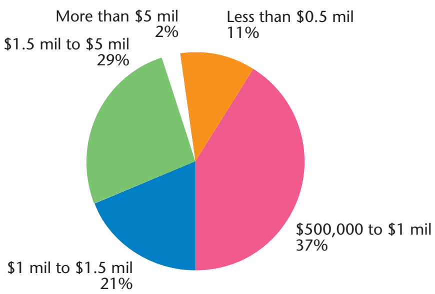
"Discernible increases in the number of buyers from some of the Commonwealth and East Asian countries"

Private residential property prices continue to expand at a modestly accelerating pace. In 2Q 2006, average private home prices edged up 1.6% from the preceding quarter, the highest increase seen in nine consecutive quarters of growth since mid-2004. Price trends in 2Q 2006 continue to vary between the different market tiers. Prices of high-end developments in prime areas recorded another quarter of strong rise with the launch of St Regis Residences which were sold at average prices of $2,300-$2,800 psf. However, even after discounting the effect of St Regis Residences, prices of prime high-end developments still posted a 3% to 5% qoq rise.

Prices in the general mass-market segment remained relatively flat in 2Q 2006. Nonetheless, a breakdown of the mass-market projects into different planning regions reveals that the mass-market developments in the West and North-East Region are beginning to recover due to the growing popularity of living in these regions.

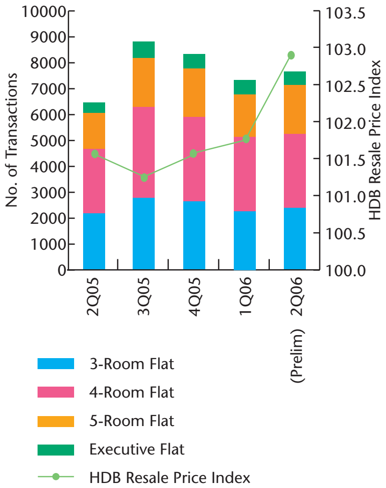
Chart 4

Estimated Breakdown of Foreign Purchasers (PRs & Non-PRs) in each Property Price Range in 2Q 2006



Source: URA / KF Research

Chart 5
HDB Resale Transaction Volume and Price Index



Source: Housing & Development Board / KF Research

Public Housing Sector

One year after the anti-cash back measures were introduced, the HDB resale market began to show more positive signs of recovery, with the resale price index rising by about 1.3% as compared to a year ago. On a quarterly basis, the HDB resale price index grew by about 1.1% qoq, the fastest expansion in three consecutive quarters of growth. This growth was helped by the strong economic performance, bright job prospects, and stable political transition in 2Q 2006.

After a relatively mixed performance in the average valuations of the different HDB flat types in 1Q 2006, the average valuations of all HDB flat types trended upwards in 2Q 2006 with the 2-room flats leading the growth, rising about 5% qoq. Moderate price recovery can also be seen in the 4-room and 5-room HDB flats. The revision of the resale levy from a percentage of resale value to a fixed amount, pegged to the first subsidized flat type, have allowed sellers to ask for higher selling prices for their flats.

In 2Q 2006, more HDB resale 3, 4, 5-room and executive flats were transacted as compared to 1Q 2006. 3-room and 5-room HDB flats recorded the biggest rise in the number of resale transactions of almost 7%-13% qoq. While Executive flats transactions are expected to rise by only about 2%-4% qoq, 4-room flats remained the most popular type of HDB flats, with an estimated 2,800 units transacted in 2Q 2006.

Outlook for Private Residential Property Sector

The momentum of the price growth in the private home market is likely to continue into the second half of 2006 (2H 2006). Sentiments in the residential property market, especially in the mid-tier and high-end segment, could still remain buoyant due to the healthy business and employment environment. However, the rate of growth is not expected to accelerate as Singapore's economic growth could moderate in the second half of 2006. The URA private residential price index for the whole of 2006 could increase by 4% to 8% year-on-year, which is higher than the 3.9% average price increase in 2005.

Although three new residential development sites were added to the Reserve List in the Government Land Sales programme for 2H 2006, not a single residential site was placed on the Confirmed List, which could indicate that the Government feels that there is sufficient supply of development sites to meet future housing demand. The three new sites are located at Simon Road, Dakota Crescent and Woodsville Close. These three sites could provide more choices for private housing developments on different parts of the island and are expected to attract some interest from developers.

The new CPF policy taking effect from July 1, 2006 such as restrictions on the use of CPF saving for multiple properties and the rise in the CPF minimum sum on the residential market could restrict the demand for investment properties in the mass and mid-tier segments. However the high-end home market is not expected to be affected by these policy changes.

In the following quarters, the private rental market may be affected by a new US tax law that essentially raises the cost of hiring Americans abroad. For example, for Americans working in Singapore, the new law substantially reduces the foreign housing expenses they can exclude from their taxable income. As a result, they will be pushed into higher tax brackets. Employers who take charge of the taxes payable by their employee would then be faced with increased tax burden and may consider repatriating a portion of such employees or reducing their housing allowance. This could reduce the demand for larger and more expensive rental properties. As a result, the increase in rental rates could also be curbed.

"Price index for the whole of 2006 could increase by 4% to 8% year-on-year"

Chart 6
HDB Resale Valuation

Source: Housing & Development Board / KF Research

"Average HDB resale price growth would be weaker than that of the private home prices"

Outlook for Public Housing Sector

Although the average HDB resale prices have expanded for three consecutive quarters, it is premature to break out the champagne. In the past four years, the HDB resale price trend had been relatively erratic, occasionally contracting or stagnating after a few quarters of growth. This sector is highly sensitive to government policy changes and job market sentiments.

Price recovery in the HDB resale market is likely to continue into the next quarter. Even if the average HDB resale prices continue to expand at its current pace for the rest of the year, its growth would still be weaker than that of the private home prices, due to the existing oversupply of unsold HDB flats. For the whole of 2006, the average HDB resale prices is projected to rise by 3% to 6%.

In the next quarter, the launch of the first HDB Design, Build and Sell Scheme (DBSS) development by Sim Lian Land will be closely watched by homebuyers in Tampines, other developers and the Government. The success of this project could result in the sale of more DBSS sites by the Government.

There are a few factors that could dampen demand and price increases in the HDB market. Rising interest rates could reduce demand among HDB upgraders, as majority of the purchasers require bank financing for their flats. This is especially so for purchasers who are not eligible for HDB loans and would need to turn to the private banks for financing. The increasingly stringent rules on the use of CPF saving for the purchase of flats may also slow down the demand for larger HDB flats. As a result, with weaker demand among HDB upgraders, the demand for private mass-market properties could also be adversely affected.

Rental and Capital Value for Properties in 2Q 2006

Table 1
Rentals of New Private Residential (Apartment/Condominium) Units[1] as at 2Q 2006

Locality	Monthly Rent ($psf)
D. 9, 10 & 11 - Luxury	$3.60 - $4.50
D. 9, 10 & 11 - Others	$2.30 - $3.20
Other Areas - East Coast	$1.50 - $2.40
Other Areas - West	$1.10 - $1.90
Other Areas - Upp. Bt Timah	$1.05 - $1.40
Other Areas - Thomson, Toa Payoh, Bishan	$1.40 - $1.90
Other Areas - Yio Chu Kang, Yishun	$0.90 - $1.30

[1] New Private Residential Units refer to projects that are less than 5 years old.

Table 2
Capital Values of New Private Residential (Apartment/Condominium) Units[1] as at 2Q 2006

Locality	Capital Value ($psf)
Luxury Condo (FH)	$1,490 - $1,685
D. 9, 10 & 11 (other FH condo)	$840 - $960
East Coast (FH)	$655 - $725
East Coast (99-yr)	$450 - $610
West (FH)	$460 - $560
West (99-yr)	$400 - $440
Upp. Bt Timah (FH)	$450 - $520
Thomson, Toa Payoh, Bishan (FH)	$460 - $580
Thomson, Toa Payoh, Bishan (99-yr)	$440 - $450
Yio Chu Kang, Yishun (99-yr)	$345 - $420

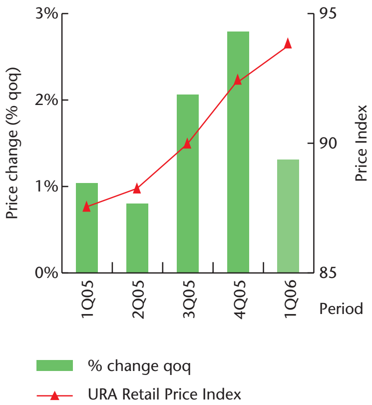
[1] New Private Residential Units refer to projects that are less than 5 years old.

[2] FH & 99-yr refers to Freehold & 99-year leasehold properties respectively.

Singapore Retail Property Highlights

Market Indicators

Chart 1
Retail Price Index



Source: URA / KF Research

Retail sales for 1Q 2006 achieved a healthy 8% year-on-year (yoy) growth and are expected to expand in the second quarter due to stronger consumers' confidence and the Great Singapore Sale. The main bulk of the growth was due to higher revenue generated in the month of March. Overall retail sales for March 2006 surged by 44% as compared to the preceding month, hitting $2,896 million with all major retail sectors registering better sales. Excluding motor vehicles, retail index rose by 14.9% relative to the previous month and continued the upward momentum in April, inching upwards by another 0.8%. This is an indication of upbeat consumer sentiment, which is a result of better-than-expected economic conditions and falling unemployment.

Singapore's tourism sector looks well positioned for growth for the next five years. The award of the Marina Bay Integrated Resort (IR) to Las Vegas Sands is another major step to boost the economy as well as the tourism sector. Las Vegas Sands' IR with casino, is expected to draw a great number of Chinese tourists to Singapore with its strong presence in Macau. The planned Marina Bay IR would also increase Singapore's competitive position in Asia's MICE (meetings, incentives, conventions and exhibitions) market by doubling the space for MICE in Singapore. All these can potentially translate into more tourist spending. As for now, efforts by Singapore Tourism Board (STB) to boost tourist arrivals continued to yield results as 815,000 visitors entered Singapore in April 2006, registering a 16% yoy jump.

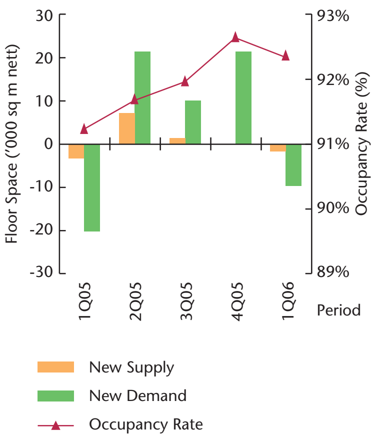
Supply and Demand

"Retail space remained tight throughout the island"

Occupancy rate for retail space fell marginally from 92.6% to 92.4% in 1Q 2006 and is expected to vary within the 92% to 93% range in 2006. The Orchard Road shopping belt remains the most sought-after retail location nationwide with average vacancy rate unchanged from last quarter's 3%, which was at a 14-year low.

Retail space remained tight throughout the island with The Cathay at 2 Handy Road being the only completed new retail development in 1Q 2006. New retail space and developments that received TOP in 2Q 2006 are Raffles City Basement, Dhoby Ghaut MRT and Great World City Basement. The Cathay consists of an art cinema, The Picturehouse, an eight-screen cineplex and a 4-storey shopping mall in its premise. Not all the shops are opened for business yet, but tenants such as Ben & Jerry's, the Inner Harmony Spa and Adidas concept boutique should give young professionals something to look forward to. In particular, the new Adidas flagship store which encompasses about 6,000 sq ft of retail space is touted as the largest Adidas store in Asia, excluding Japan.

Chart 2
Demand & Supply of Retail Space (Private & Public Sectors)



Source: URA / KF Research

New Developments

Slated for opening in November 2006, Square 2, which is situated at Novena, has close to 600 shops and would be the first Korean-themed mall in Singapore. It will boast a unique Electronics and IT clustering and house a Fashion Hub.

"The revamping of retail developments island-wide continues as retail properties reposition and reinvent themselves to stay competitive"

The revamping of retail developments island-wide continue into the second quarter as different retail properties such as Raffles Hotel Arcade and Eastpoint Mall re-position and re-invent themselves to stay competitive. Jurong Point has also planned for A&A (Alteration and Addition) works to its existing wing on the first floor. In the vicinity of Clarke Quay area, Riverside Point could also possibly be gearing up for a revamp to remain competitive, since The Central, the new residential and commercial development is located just nearby.

Great Singapore Sale and Retailers

The annual Great Singapore Sale (GSS) kicked off in spectacular style during 2Q 2006. While major retailers such as Robinsons, Takashimaya, Tangs and Metro had drawn in shoppers with substantial marked-down prices, other smaller retailers also reported better sales. Last year's GSS which achieved an estimated turnover of $5 billion attracted over 1.6 million foreign visitors with each spending an average of $1,415. Retailers aimed to better last year's performance to attract more visitors. For instance, Tangs introduced a GSS Tourist card which comes with an additional 5% discount and more malls stayed open past midnight this year to offer late night shopping experience. The cash distributed to each Singaporean adult by the Government through the Progress Package in May 2006 also had a positive impact on this year's GSS.

Singapore continues to be a retail destination for luxury retailers. French watchmaker Cartier is opening a boutique dedicated to selling its accessories in Ngee Ann City, while other luxury brand names such as Versace, have plans to refurbish their current stores. As the ranks of the middle class expand throughout Asia, this region would become a growing market with great potential. Since Singapore is a key shopping destination in Asia, a growing number of luxury retailers are expected to increase their presence here. In addition, the revenue of luxury retailers could be boosted by the influx of affluent foreign tourists with the opening of the two Integrated Resorts between 2009 and 2011.

Foreign fashion brands continue to make their foray into our local market. Hitting the ladies department will be labels like Coast (Britain), Trucco (Spain), Machka (Turkey) and Part Two (Denmark), while Sonneti (Britain), InWear/Matinique and Blend (Denmark) will cater to the urban male. These European brands were brought in by the Robinson Group, which changed its target consumer group to the younger working class professionals. The wave of new, trendy brands setting up their foothold in Singapore looks set to stay, as Las Vegas Sands also promised to bring in upmarket retailers who have yet to have a presence here.

"F&B outlets continue to be a growing component of the retail market"

F&B outlets continue to be a growing component of the retail market. Malls that underwent revamps have increased the proportion for F&B in their retail mix. For example, Marina Square has increased the number of food outlets by 5% after its major renovation. Suntec City's Tasty Treatz, which consists of about 40 food kiosks, had been fully taken up within 4 months' of marketing. Pubs and dance clubs which used to occupy the night entertainment street of Mohammed Sultan are also slowly being replaced by restaurants as the tastes of party-goers change.

New Trend

"A new trend in the malls is the inclusion of an IT hub"

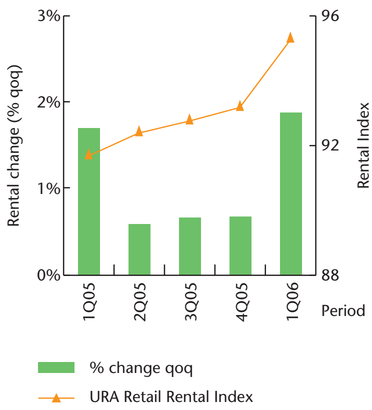
A new trend that is evolving in the malls is the inclusion of an IT Hub or an Information Technology retail space. Traditionally, Funan DigitaLife Mall is the place consumers go for computer products and Sim Lim Square is seen as the heart and soul of Singapore's hardware scene. The scene of a centralised IT mall could be set for a change as there is strong demand from IT vendors who are looking for retail space. Square 2 has allocated one whole basement, equivalent to about 150 shops to sell IT related products. Similarly, Suntec Mall will also see a digital hub that houses 82 units.

New Retail REIT

Frasers Centrepoint Trust (FCT) became the 10th Reit to be listed on SGX mainboard. The initial $915 million portfolio will consist of Causeway Point and Northpoint which are located in the suburbs as well as Anchorpoint which is at the city fringe. Centrepoint Shopping Centre, which is currently undergoing extension works, may also be added into the portfolio at a later date. The other listed retail Reits are Suntec Reit, CapitaMall Trust and Macquarie MEAG Prime Reit.

Investment Sales of Retail Properties

Chart 3
Retail Rental Trends



Source: URA / KF Research

Originally on the URA reserve list, the Somerset Central site was put up for tender in May after it was triggered by a $400 million application bid. The choice site will possibly top both the winnings bids for Orchard Turn ($1,020 psf/gpr) and Glutton's Square ($1,085 psf/gpr), as it remains the last major undeveloped prime site in the Orchard Road area. The potential for this site to amalgamate with the Specialists' Shopping Centre and the Glutton's Square site plus the accessibility to the Somerset MRT station will put a premium on the land price as well. The tender for the site closes on 16 Aug 2006 and is expected to be hotly contested.

Another interesting site launched under URA's confirmed list in June 2006 is the commercial development site at Collyer Quay. It consists of the former Clifford Pier and Customs Harbour Branch building and is in close proximity to existing attractions such as the Merlion, Esplanade and One Fullerton. A development on this site could also enjoy the view of future attractions such as Marina Bay Sands, Marina Barrage and Singapore Flyer. This site could also potentially be amalgamated with the aging Overseas Union House and Change Alley. The new development is likely to cater to the needs of tourists, office population in the CBD as well as residents living in the upcoming residential developments.

A notable transaction in this quarter is OCBC's sale of 29.9% stake in Robinson to Auric Pacific, the investment vehicle of Lippo Group for $203 million. Robinson is an established retailer in Singapore, which also operates the John Little and Marks & Spencer brands. Lippo Group's presence in Indonesia, Malaysia, Hong Kong and China will present excellent opportunities for Robinson to expand into the Asia Pacific region.

Prices and Rentals

"The highest upward rental movement was seen in malls in the Orchard Road vicinity, with Wisma Atria in particular achieving rates of above $60 psf for prime units"

As the supply of prime retail space remains tight due to the lack of new developments, rental growth was broad-based in 2Q 2006. The highest upward rental movement was seen in malls in the Orchard Road vicinity. Average monthly rentals in the area increased to $38.10 psf with Wisma Atria, in particular achieving rates of above $60 psf for prime units. Average prime rentals around the Orchard Road fringe area reached $20.30 psf. Revamps in malls such as Marina Square in the micro market of Marina Centre, City Hall and Bugis managed to push average rentals in the area up by 1.9% qoq to $27.10 psf. Similarly, rentals in suburban malls continued to experience upward pressure, rising by 1.7% qoq to $27 psf.

Outlook

Islandwide supply is likely to remain stable for the next quarter till the completion of Vivocity in October. In light of this, there will be greater efforts by landlords to refurbish and reposition their existing malls to attract shoppers. This is likely to energise the entire retail market and continue to drive up rentals. Prime retail rentals for the entire 2006 are expected to increase 4% to 5% as retail space in Orchard Road vicinity remains highly in demand. Suburban malls are likely to see a rental increase in the same magnitude as Reits continue to maximise yields.

"Prime retail rentals for the entire 2006 are expected to increase 4% to 5% as retail space in Orchard Road vicinity remains highly in demand"

Current Rentals of Prime Shopping Centre Space

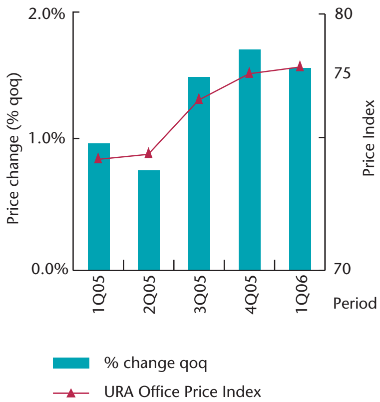
Locality	Average Prime Monthly Gross Rental ($ psf)[1]
Orchard (Central)	$38.10
Orchard (Fringe)	$20.30
Marina Centre, City Hall, Bugis	$27.10
City Fringe	$20.70
Suburban	$27.00

1 Based on pre-defined portfolio of properties; Refers to prime shop space of between 400 - 800 sf typically located on ground level with good frontage; Any yields implied refer only to such prime space and may not be reflective of the entire shopping centre

Source: KF Research

Singapore Office Property Highlights

Chart 1
Office Price Index



Source: URA / KF Research

"In 2Q 2006, increased demand for office space was fuelled by financial institutions"

Office Market Review

Singapore economy showed little signs of slowing down in 1Q 2006 with a blistering 10.6% year-on-year (yoy) growth, the highest since 2Q 2004. The strong economy has now seen 11 quarters of continued expansion which bodes well for the office property market. The banking and finance sectors remain a key demand driver for office space. In 1Q 2006, turnover for financial institutions accelerated by 38.6% yoy, the highest among all sectors.

In line with favorable economic conditions, price and rental of office properties continued to increase unabated. Official statistics from URA show that average capital values in 1Q 2006 improved by another 5.0% yoy while average rental, led by a 13.7% yoy upsurge in Central Area, powered up by 12.8% yoy.

Demand and Supply

The office market produced a scintillating performance in 2005. It was a year when demand was buoyant but supply remained tight. Entering into 1Q 2006, demand of office space remained robust with take-up reaching 538,195 sq ft. This was higher than the average quarterly demand of 489,758 sq ft for 2005. On the other hand, supply of office space slipped into negative territory once again.

In 2Q 2006, increased demand for office space was fuelled by financial institutions. Besides expansion by Reuters and Credit Suisse, US-based investment banking giant Merrill Lynch also decided to set up a major global support operations in Singapore that is likely to create about 800 jobs over the next two years. The new office will be housed in a massive 108,000 sq ft setting which represents a substantial back office setup. Merrill Lynch joins renowned financial institutions such as Barclays Capital, Deutsche Bank, UBS Bank, Citibank and Credit Suisse who have moved their regional or global operations hub to Singapore. As a result of robust demand, vacancy rates for Grade A buildings in the Central Business District (CBD) area fell to 3.4% in 2Q 2006.

New office supply remains limited in the CBD area. The only major new office development in the CBD that is completed in 2Q 2006 is the Parakou Building. The modern 16-storey office building which is prominently located at the junction of Robinson Road and McCallum Street, was completed in April 2006 and has a gross floor area (GFA) of about 70,000 sq ft.

Rejuvenation of Robinson Road

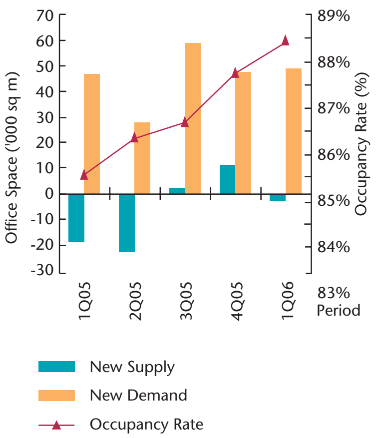
Despite rising office rentals, Singtel is likely to sell off its office building at 71 Robinson Road which houses Robinson Post Office after obtaining permission to convert the office block into a 51-storey, 315-apartments residential development. With the approved plot ratio of 11.2, the proposed building can be built up to a GFA of 274,746 sq ft. Together with Natwest Centre and Asia Chambers located just a street away, this would add to a handful of buildings catering to inner city living. The nearby GMG Building is also up for sale by tender at an asking price of $45 million.

"In anticipation of strong competition from the Business and Finance Centre, some office buildings along Robinson Road are giving the aging buildings a new lease of life"

Besides the potential sale of 71 Robinson Road and GMG Building, other parts of Robinson Road also saw sales and redevelopments in 2Q 2006. Singapore Airlines sold SIA Building at 77 Robinson Road for nearly $344 million while GuocoLand sold the 20-storey Robinson Centre for $145 million to a fund owned by Alpha Investment Partners, a subsidiary of Keppel Land. Both Grade A buildings are located along Robinson Road. HB Robinson, which is situated across the road from Robinson Centre was sold by Ho Bee Investment Ltd to CLSA Merchant Bankers Ltd for $80 million in this quarter. SIF Building which is currently undergoing redevelopment should be ready by the end of the year. This flurry of activities is an indication that in anticipation of strong competition from the Business & Financial Centre that will have its first phase completed in 2010, some office buildings along Robinson Road are trying to stay competitive by giving the aging buildings a new lease of life.

Investment Sales of Office Properties

Chart 2
Demand & Supply Of Office Space (Private & Public Sectors)



Source: URA / KF Research

In 2Q 2006, REITs continue to be active. Allco Commercial REIT announced the purchase of former Sinsov Building at 55 Market Street for $72.5 million. The building is currently under refurbishment and will be ready in 4Q 2006.

After purchasing 79 Anson Road office block and One Phillip Street in 1Q 2006, Lippo Group carried on its acquisition trail in 2Q 2006 by teaming up with tycoon Ananda Krishna to acquire 55% stake in Overseas Union Enterprise. This acquisition will give Lippo Group access to OUB Centre which has the prestigious address of 1 Raffles Place, Overseas Union House and Change Alley Plaza & Tower. All these buildings are located within the CBD.

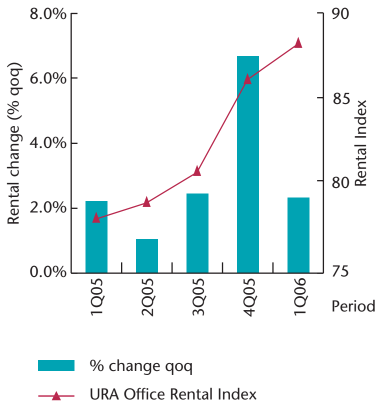
In June 2006, URA released for application a 99-year-leasehold reserve site at New Bridge Road/North Canal Road for small-scale office development. The 13,813 sq ft site could yield a maximum GFA of about 58,016 sq ft. Sitting on a prominent location with excellent frontage, the site lies within the CBD and is accessible to Shenton Way and Marina Bay. It is also within walking distance to Clarke Quay, Boat Quay and Singapore River. Office developments that are located nearby include Apollo Centre and One George Street.

Table 1
Average Effective Monthly Rental

Location	Average Effective Monthly Gross Rental ($psf)
CBD (Grade A)	
Raffles Place	$5.80 - $6.40
Marina Centre/City Hall	$5.30 - $5.80
Shenton Way/ Robinson Road	$4.30 - $4.70
Orchard Road	$5.70 - $6.10
Non-CBD	
Beach Road/ Middle Road	$3.90 - $4.30
Suburban (North)	$4.20 - $4.70
Suburban (East)	$3.30 - $3.60
Suburban (West)	$3.10 - $3.50

"As demand for office space remains strong in a tight supply situation, rentals across all micro markets moved upwards"

Chart 3
Office Rental Index



Source: URA / KF Research

"The second half of 2006 is likely to witness another period of sustained rental appreciation in the office sector"

Prices and Rentals

As demand for office space remains strong in a tight supply situation, rentals across all micro markets moved upwards. Grade A office buildings remain highly sought-after. In 2Q 2006, average rentals for Grade A office buildings in Raffles Place grew by 3.8% qoq to $6.10 psf while the nearby Shenton Way and Robinson Road expanded by 3.5% qoq to $4.50 psf. Prime office rentals in the Suntec, Marina Centre and City Hall area also witnessed a rise of 4.3% qoq to $5.50 psf. The popular Orchard Road shopping belt continued to command high office rentals at $5.90 psf, an increase of 1.0% qoq.

Office rents in the suburban office areas also experienced upward pressure, albeit in a lesser extent. The North area continued to lead the pack with average monthly rentals rising by 3.0% qoq to reach $4.50 psf. Rentals in the East area remained stable while the West area saw a rental increase of 2.2% qoq, mainly spurred by good take-up in the office buildings at the HarbourFront location.

Outlook

The outlook for office property sector remains bright as a result of strong demand due to the rosy economic prospects of Singapore as well as the bullish sentiment in the banking and finance sector. The wave of new financial institutions setting up back offices and existing ones expanding their operations looks set to continue. With the International Monetary Fund and World Bank meetings ready to be held in Singapore during September, there could be positive spillover effects into the finance sector.

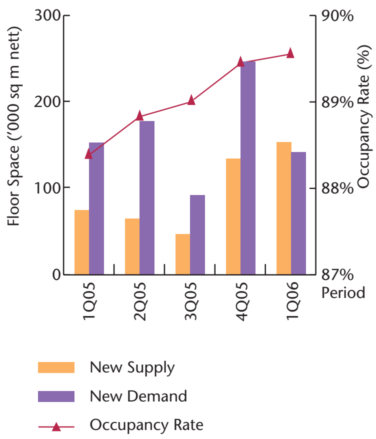
One of the consequences of tight supply is the shortage of vacant prime office space in the CBD and rising rentals. This has caused some firms to consider locating their offices to the fringe area.

Rents continue to trend upwards, showing no sign of softening. With supply staying at stubbornly tight levels in the face of healthy demand, office rents will remain on course to ride the upward trend. The second half of 2006 is likely to witness another period of sustained rental appreciation in the office sector which will range from 4% to 6% on an islandwide basis and up to 10% for Grade A buildings in prime area.

Singapore Industrial Property Highlights

Chart 1

Demand & Supply of Factory Space (Private & Public Sectors)



Source: URA / KF Research

Sizzling Economic Performance

Strong domestic and global demand had spurred Singapore's economy to expand by a sizzling 10.6% and 7.5% year-on-year (yoy) in 1Q 2006 and 2Q 2006 respectively. In particular, the manufacturing sector obtained a healthy 21.7% yoy growth due to strong performance in February and March 2006. The main drivers in the robust manufacturing performance are the biomedical cluster, which hit a 47.3% yoy growth, and the transport engineering cluster that expanded by 39.9% yoy. Due to lower production in hard disk drive segment, the electronics cluster moderated to an expansion of 13.6% yoy. In April, manufacturing slowed down to a 3.0% yoy growth as a result of a sharp decline in biomedical cluster, which is usually volatile in nature. Output level, excluding biomedical manufacturing cluster, rose 9.3% yoy.

Trade data of April's non-oil domestic exports (NODX) however revealed a slower-than-expected 10.1% yoy growth, which is lower than the 16.6% yoy expansion in February and March. There is no real cause for alarm though as it is merely a correction back to the more normal growth of about 10% growth. Aided by expansion in both domestic exports of both electronic and non-electronic products, NODX for May 2006 grew by 18.2% yoy.

The Manufacturing Purchasing Managers' Index (PMI), a leading indicator of manufacturing output, continued to hover along the 50-point borderline but was at least marginally back to positive territory of 50.4 in April after experiencing a contraction in the previous month. The PMI surged to a 6-month high of 52.3 points in May due to increase in new orders which were broad-based across most sectors of the manufacturing economy.

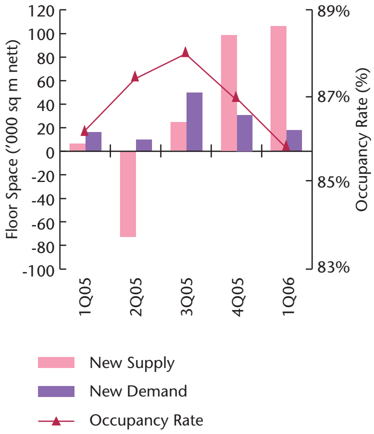
Supply and Demand

"The average islandwide occupancy rate remained unchanged at 89.5%. The West region, particularly in Jurong and Tuas, contributed about one third of the new supply"

In 1Q 2006, although the 1.66 million sq ft new supply of factory space marginally outpaced the new take-up of 1.52 million sq ft, the average islandwide occupancy rate remained unchanged at 89.5%. The West region, particularly in Jurong and Tuas, contributed about one third of the new supply.

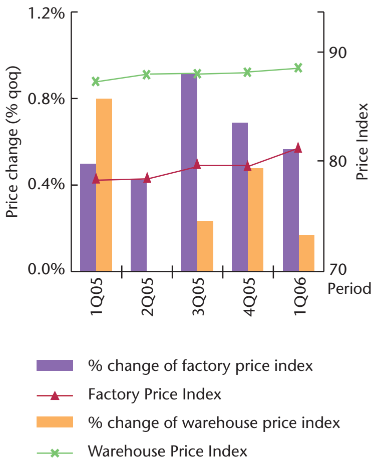
The aim to double the manufacturing output to $300 billion by 2018 and create 15,000 jobs in this sector every year reflects the Government's continued emphasis on the importance of the manufacturing sector to the economy. Besides being a strong manufacturing hub, Singapore has moved up the value chain in recent years and is developing new knowledge-based industries such as nanotechnology, alternative energy and biologics.

Chart 2
Demand & Supply of Warehouse Space (Private & Public Sectors)



Source: URA / KF Research

Chart 3
Factory & Warehouse Price Index



Source: URA / KF Research

More Cutting-Edge Industries Set-up Here

The biomedical sciences sector saw a flurry of activities in the second quarter. In April, US-based Waters Corp announced plans to build a medical equipment manufacturing plant, which will be Singapore's first plant for manufacturing high performance liquid chromatography systems. In June, Pharmaceutical giant GlaxoSmithKline stated plans to invest $300 million in the next 4 years on a vaccine plant in Singapore, the biggest in Asia. Meanwhile US healthcare group Abbott launched a $450 million powder-manufacturing plant which is slated for completion by end 2008 at Tuas Biomedical Park II. Abbott is the first tenant at Tuas Biomedical Park II, a 188-ha site developed to cater to the growing interest from biomedical research and manufacturing firms. The 183-ha Tuas Biomedical Park I is almost fully taken up by global giants such as Ciba Vision, GlaxoSmithKline, Merck Sharpe & Dohme, Novartis, Pfizer, Wyeth Pharmaceuticals and Wyeth Nutritionals.

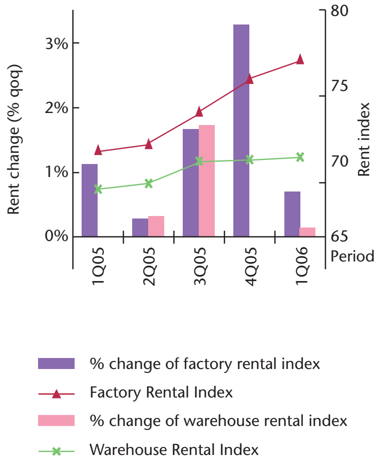
The world's largest chemical company, BASF recently opened in Singapore its first nano technology research facility in Asia which will also include research in Organic Photovoltaics. Located at Science Park 3, the $26 million research centre showcases Singapore's success in attracting new industries that strengthen the research and development sector, which is the key to Singapore's next stage of industrial growth.

Different Paths of Industrial REITs

The recent rise in interest rates has depressed the prices of the listed REITs (Real Estate Investment Trust), thus raising their yield to between 4.5% and 6.5%. This has posed some challenges to the acquisition and listing plans of some REITs. Mapletree Logistics Trust (MLT) continued its buying spree in May for three properties worth $65 million whereas A-REIT was relatively quiet. While MLT has been active in overseas acquisitions, A-REIT is concentrating on industrial properties in Singapore because some 355 million sq ft of local industrial space is still available for acquisition, of which one third is of investment grade.

Looking to raise $120 million, Cambridge Industrial Trust (CIT) lodged its preliminary prospectus with the Monetary Authority of Singapore at end May 2006. CIT's initial portfolio of 27 properties is valued at $519 million and about half of those properties are located in the western part of Singapore. CWT Distripark (HQ), YCH Distripark and Jurong Districentre command the highest value in the portfolio and are logistics & warehousing properties. Due to the weak sentiment of the stock market in June, CIT decided to delay the initial public offering. The delay did not take too long as CIT relaunched in July with the same portfolio of properties but raised the initial yield of 6.50% to between 7.5% and 7.71%.

Chart 4
Factory & Warehouse Rental Index



Source: URA / KF Research

Government Sells More Industrial Land

In the second quarter, Urban Redevelopment Authority (URA) had released for tender two industrial sites at Woodlands Industrial Park E2/E9 and Tampines St 92/ Simei Ave under the Government Industrial Land Sales Programme. The 167,034 sq ft Woodlands site is on the confirmed list and has a 60-yr lease while the 214,880 sq ft land parcel at Tampines is on the reserve list with a 30-yr lease tenure. Both sites are new and zoned for Business 2 use. This reaffirms the government's assurance that it will release enough land through its land sales programme to curb any spike in industrial rent.

The site at Woodlands Industrial Park E2/E9, which was strongly contested by 8 bidders, was subsequently awarded to Evan Lim & Co Pte Ltd for $5.85 million ($35.02 psf/gpr). The substantial number of bidders indicates that demand for industrial land at Woodlands remains healthy. A similar 60-year leasehold site at Woodlands Avenue 4 was sold for $35.93 in October 2005, reflecting a stable industrial land price in the area. The second quarter also saw URA awarded the industrial site at Bedok North Ave 4 to Richland Group Limited for $5.12 million ($24.05 psf/gpr) and another industrial site at Tuas South Ave 2/3 to Yee Lee Construction Pte Ltd for $5.8 million ($14.97 psf/gpr).

Prices and Rentals Edge Upwards

Due to sustained growth in the manufacturing sector and the economy on a whole, industrial rentals for both ground and upper floors in most areas reacted positively. There were also many renewals of leases at higher rentals which contributed to the upward trend. In 2Q 2006, average monthly rentals for upper floor industrial space in Kaki Bukit and Admiralty increased to $1.06 psf and $0.98 psf respectively.

As prime office rentals continue to trend upwards, some companies relocated their operations to high-specification factory building.

As prime office rentals continue to trend upwards, some companies relocated their operations to high-specification factory building. As a result, average monthly rentals for high spec factory space grew by 2.7% to $1.93 psf. Capital values also improved marginally due to investments by industrial REITs as well as expansion by companies.

Rentals of conventional industrial space is projected to expand by 2% to 4% for the entire year

Outlook

With the extension of the East-West line from Boon Lay MRT to Joo Koon Circle as well as a new bus interchange next to it, accessibility to the Tuas Industrial estate will be enhanced. For the past several years, there had been a glut of industrial space in Tuas. These additional infrastructures, which will be completed by 2009, are likely to have a positive impact in the interests and take-up of industrial premises in Tuas in the near future.

In the second half of 2006, Singapore's economic performance is expected to moderate slightly. However, manufacturing performance is anticipated to remain upbeat. Demand for industrial space is thus likely to remain stable with room for possible upturn. Rentals of conventional industrial space is projected to expand by 2% to 4% for the entire year while high tech industrial space will possibly witness a rise of about 5% to 6%.

Table 1.

Current Rentals and Capital Values of Sample Factory/Warehouse (Upper Floors) & Business Park Space

Type		Average Monthly Gross Rental ($psf)	Average Capital Value ($psf)
Conventional Industrial Space			
Locality	Macpherson/Paya Lebar	$1.14	$200 psf - $320 psf
	Kaki Bukit	$1.06	$120 psf - $180 psf (60 yr leasehold)
	Admiralty	$0.98	$110 psf - $125 psf (60 yr leasehold)
High Tech		$1.93	NA
Business Park		$2.33	NA

Source: KF Research

Singapore Investment Sales Property Highlights

First Half of 2006

Overview

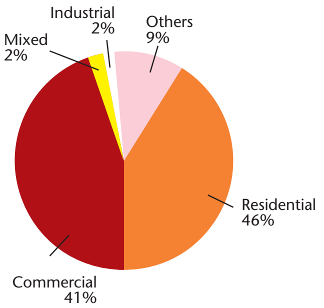
"Real estate Investment sales soared to an unprecedented height in the first half of 2006 (1H 2006). This was more than quadruple the sales volume achieved in the same period of last year and only $0.4 billion away from last year's full-year all-time high of $13.5 billion"

Real estate Investment sales soared to an unprecedented height in the first half of 2006 (1H 2006). Boosted by the sturdy economic growth and the euphoric market sentiment, Singapore's investment sales market ended the first half of 2006 with a whooping total sale proceeds of about $13.1 billion – the largest semiannual investment sales ever. This was more than quadruple the sales volume achieved in the same period of last year and only $0.4 billion away from last year's full-year all-time high of $13.5 billion. The buoyant market was mainly fueled by major purchases of residential sites by developers, large-scale REITs acquisitions and Government Land Sales (GLS).

Government Land Sales (GLS)

Total government land sales in the first half of this year amounted to about $2 billion or 15% of total investment sales. A significant part of this amount was due to the sale of the Marina Bay Integrated Resort (IR) site. In May 2006, the government surprised the market by awarding this site to Las Vegas Sands for a pre-fixed land premium of $1.2 billion. The Marina Bay IR could yield a total gross floor area (GFA) of 570,000 sq m and almost 20% or 110,400 sq m of GFA will be dedicated to the use of Meeting, Incentives, Conventions and Exhibitions (MICE). In addition to 2,500 new hotel rooms in the three signature towers, it would also provide 117,100 sq m of retail space.

Chart 1
Types of Investment Sales in 1H 2006



Source: URA / KF Research

In January 2006, Far East Organization bought the 99-year leasehold Orchard/Killiney Road site for $421.1 million or $1,085 psf ppr in a state tender that attracted 6 bidders. This is about 6% above the $1,020 psf bid by CapitaLand and Sun Hung Kai Properties' for the coveted Orchard Turn site. The entire gross floor area of the future development at Orchard/Killiney Road is likely to be devoted for retail purpose and the breakeven cost would be about $2,350-$2,400 psf. The deal showed again that when comes to prime development sites especially along Orchard Road, developers were willing to write a big cheque.

Another noteworthy GLS was the sale of 99-year leasehold residential plot at Tanah Merah Kechil Avenue near the Tanah Merah MRT Station to a joint venture between NTUC Choice Homes and Wing Tai Holdings. The purchase price of $210 million works out to about $318 per sq ft of potential gross floor area for the 21,876.8 sq m site. The breakeven cost was about $520-530 psf. Given the site's suburban location and 99-year leasehold tenure, the price was considered bullish and may indicate the sentiments among some developers that prices in the mass-market may expand by 10% or more in the next 12 to 18 months.

"Total government land sales in the first half of this year amounted to about $2 billion or 15% of total investment sales"

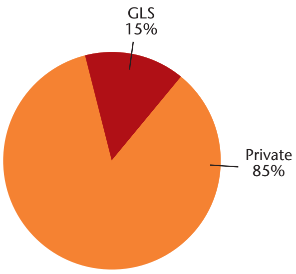
Other major GLS included the first DBSS (Design, Build and Sell Scheme) site for Singapore's first privately developed public housing in Tampines Avenue 6 to Sim Lian Land for $82.2 million or $113.67 per square foot per plot ratio. This is an untested market and the bid was above expectation. A commercial site next to Yishun's Northpoint Shopping Centre was sold to Centrepoint Properties for $55 million for the extension of the shopping centre.

"In the private investment market, $11.15 billion worth of properties changed hands in the first half"

The Ministry of National Development added 15 new sites to the Government Land Sales (GLS) programme for 2H 2006. Including 19 unsold reserve-list sites rolled over from 1H 2006 reserve list, there will be a total of 34 plots for sale. The 34 sites could generate a total of 4,600 private homes, almost 3 million sq ft gross floor area of commercial space and more than 4,000 hotel rooms. There are an unusually high number of hotel sites. The inclusion of 6 new hotel sites could be part of the Government's effort to replace hotels that were redeveloped into residential developments and to cater to the expected rise in foreign visitors from 2009 onwards.

Private Investment Sales

Chart 2
Source of Investment Sales in 1H 2006



Source: URA / KF Research

In the private investment market, $11.15 billion worth of properties changed hands in the first half. Residential sector surpassed commercial sector to become the largest contributor of the investment sales.

Residential Investment Sales

Total private and public residential investment sales swelled to about $6 billion or 46% of the total investment sales. This represents an increase of 62.6% over last year's full-year residential investment sales. The surge in the residential investment sales was the result of sharp increase in the number of collective sales and the record prices achieved in these transactions. Almost matching last year's 37 collective sales, there were 32 residential properties sold en bloc in the first half of this year generating a total sale proceeds of $4.32 billion.

The most noteworthy en bloc transaction was the sale of Eng Lok Mansion. The Napier Road freehold site was sold for $138 million or $1,218 per sq ft per plot ratio (psf ppr). The deal set the new record for the highest unit land price paid for a residential site, which was previously held by Hong Leong Group which paid $1,122 psf ppr in 1997 to redevelop Boulevard Hotel into a condominium. Other en bloc transactions that achieved above-$1,000 unit land prices were: Angullia Mansion to Far East Organization for $132.5 million ($1,085 psf ppr), Paterson Tower & adjoining plot of state land to SC Global for $266 million ($1,047 psf ppr), Beverly Mai to Hotel Properties Ltd for $254.8 million ($1,184 psf ppr) and Lucky Tower to CDL for $403.25 million ($1,135 psf ppr).

"The stellar performance of collective sales sector reflects the exuberance of developers' confidence in Singapore's high-end housing segment and some homeowners' willingness to maximize the value of their homes"

The stellar performance of collective sales sector reflected the exuberance of developers' confidence in Singapore's high-end housing segment and some homeowners' willingness to maximize the value of their homes. The prices that developers are willing to pay are often based on their estimate of potential costs and future home prices. Assuming unchanged costs and profit margin, home prices and developers' sales will need to exceed by at least 10% growth and 8,000 homes respectively per year to sustain the collective sale fever. However, there are several factors that could cool the fever, such as the sellers' ever-rising expectations, developers' diminishing hunger for land, rising Development Charge rates and further interest rates hikes.

Commercial Property Investment Sales

REITs-related acquisitions kept the commercial investment sales market active in 1H 2006. Total commercial investment sales in 1H 2006 amounted to $5.35 billion or 41% of total investment sales. REITs-related acquisitions again made up the bulk of the volume, chalking up $3.26 billion or 61% of total commercial investment sales in 1H2006. The most significant transaction was the $2.166 billion sale of Raffles City to CapitaCommercial Trust (CCT) and CapitaMall Trust (CMT) with CCT owning 60% of Raffles City and CMT the remaining 40%. This was the first time in Singapore that two REITs have jointly made a major acquisition. The purchase price indicates an annualized property yield 4.9% for 2006 and 5.1% for 2007.

"REITs-related acquisitions kept the commercial investment sales market active in 1H 2006"

The momentum of REIT listings continued into the first half of this year. Three more real estate Investment trusts (REITs), namely Allco Commercial Real Estate Investment Trust (Allco Reit), Ascott Residence Trust (ART) and K-Reit Asia, were added to the Singapore REITs family, making a total of 10 REITs currently traded on the Singapore Exchange. Among the three REITs, Allco Reit is the first Singapore Reit that holds properties in more than one country and ART became Singapore's first serviced apartment real estate investment trust.

Besides REITs, Asian Retail Mall Fund II was the most active player in the commercial investment market. The fund added two more properties to its Singapore portfolio this year. It acquired DBS Tampines Centre and the adjacent Pavilion for a total $298.87 million or $785 psf ppr. In another deal, the fund bagged Liang Court Shopping Centre for $175 million. Based on a further $50 million for building refurbishment and an estimated new net lettable area (NLA) of 300,000 sq ft, the price works out to be $750 psf of NLA.

Total industrial investment sales slipped to $233.8 million or 2% of total investment sales. This was a 51% drop from the figure recorded for the same period last year as industrial REITs became less active in acquiring local properties and shifted their focus to regional countries. The most notable transaction in the period was A-Reit's purchase of Sembawang Kimtrans Logistics Centre and Logistics 21 for a total price of $78 million.

Outlook

"By and large, the estimated total investment sale volume for the whole of 2006 is about $20 billion, which would break the 2005 record of $13.5 billion"

Looking ahead, the sustainability of the momentum in the collective sale market depends on the sale volume in the mid-tier and high-end residential segments. The first sign of slowdown in these segments could spell the end of the collective sale fever. On the other hand, the commercial investment sale volume could still be sustained for the rest of the year due to a few major transactions in the second half of this year. These include the listings of Frasers Centrepoint Trust (FCT) and CDL Hospitality Trusts, JTC's divestment of industrial properties, sale of Sentosa IR land parcel as well as other government land sales from both the confirmed list and reserve list.

By and large, the estimated total investment sale volume for the whole of 2006 is about $20 billion, which would break the 2005 record of $13.5 billion.

Table 1: Major Investment Sales in 1H 2006

Development	Price (Inclusive of DC)	Unit Price $psf ppr	Unit Price $psf of NLA	Tenure	Purchaser
Residential					
Eng Lok Mansion	$138,000,000	$1,218	N.A	Freehold	Hasetrale Holdings
Beverly Mai	$254,800,000	$1,184	N.A	Freehold	Hotel Properties Ltd
Lucky Tower	$403,250,000	$1,135	N.A	Freehold	City Developments
Skyline Angullia	$107,600,000	$1,073	N.A	Freehold	Far East Organization
Land Parcel at Kim Seng Rd	$329,105,000	$739	N.A	Freehold	Lippo Karawaci Corporation
Amberville	$242,000,000	$396	N.A	99-yr	Far East Organization
Venus Mansion	$123,000,000	$785	N.A	Freehold	Chip Eng Seng Corporation Group
Land Parcel at Tanah Merah Kechil Ave	$210,000,000	$318	N.A	99-yr	NTUC Choice Homes & Wing Tai
Commercial					
Raffles City	$2,166,000,000	N.A	N.A	99-yr (72 yrs remaining)	CCT & CMT
DBS Tampines Centre and Pavillion	$298,870,000	$785	N.A	99-yr (83 yrs remaining)	Asian Retail Mall Fund II
Liang Court Mall	$220,000,000	N.A	$733	97-yr (71 yrs remaining)	Asian Retail Mall Fund II
Robinson Centre	$145,000,000	N.A	$1,115	99-yr (90 yrs remaining)	Appha Investment Partners Ltd
Paradize Centre	$138,000,000	N.A	$1,668	99-yr (76 yrs remaining)	a consortium led by Lend Lease
SIA Building	$343,880,000	N.A	$1,165	99-yr (87 yrs remaining)	a fund managed by CLSA
Land parcel at Orchard Rd/Killiney Rd	$421,100,000	$1,085	N.A	99-yr	Far East Organization
Others					
Marina IR Land Parcel	$1,200,000,000	N.A	N.A	60-yr	Las Vegas Sands

Knight Frank

Singapore Auction Property Highlights

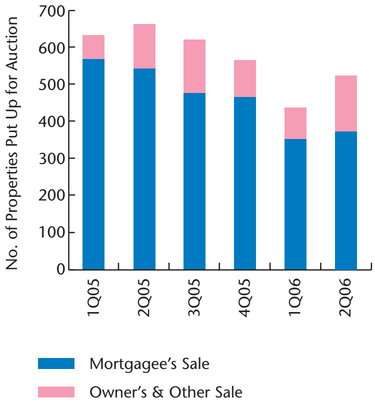
Auction Market Performance – 1H 2006

Market Recovery Depressed Auction Volume

The volume of mortgagee's sales from bank foreclosures, which contributes to a large proportion of properties offered for auctions, usually correlates negatively with the performance of the real estate market. Following the strong performance in the high-end residential segment, the total number of properties put up for auctions in 1H 2006 fell by another 18% from that in 2H 2005, to 952 units. This downtrend was already experienced in the later half of 2005 by the 5 auction houses, namely Knight Frank (KF), Colliers International (CI), DTZ Debenham Tie Leung (DTZ), Jones Lang La Salle (JLL) and Cheong Koon Seng (CKS). Residential properties remain the dominant type of property that is put up for auction, maintaining a market share of about 50% of the total properties put up for sale.

Chart 1

The Number of Properties Put Up for Auctions



Source: KF Auction / KF Research

Volume of Mortgagee's Sales Dropped

The fall in the number of properties put up for auctions can be attributed to the fall in the number of mortgagee's sales, especially in the residential segment. In 1H 2006, the number of residential mortgagee's sale fell a hefty 40% as compared to the same period in 2005. This drop was mainly seen in the number of prime high-end residential properties put up for auction, where owners who were facing foreclosure, found it relatively easy to sell their properties in the open market, due to the buoyant demand in the high-end residential market.

"Fall in the number of properties put up for auctions can be attributed to the fall in the number of mortgagee's sales"

However, due to the lackluster performance in the mass-market segment, there was still a substantial supply of mass-market residential properties, especially in the Hillview, Sembawang and Geylang area such as Parkview, Parc Vista and Famile Mansion that were offered for auction. In 1H 2006, the mass market residential properties made up of about 79% of the total residential mortgagee's sale that were put up for auction.

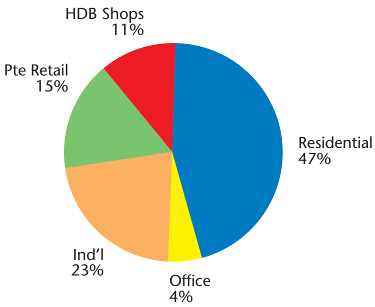
The strong growth in office rentals and capital values coupled with the limited supply of new office space also caused the number of office properties put up for auction by mortgagee's sales to record a drop of almost half the amount from 1H 2005.

Property Owners Use Auctions as Price-discovery Mechanism

Some property owners were utilizing the auction market as a price-discovery mechanism and to gauge the public's response to their asking prices. There was a noticeable growth in the interest among property owners to voluntarily put up their properties for sale in the auction market. For the first half of 2006, the number of owner's and other sales increase by about 12% as compared to that in 2H 2005 and almost 50% as compared to the same period in 2005. In particular, there was a rise in the number of voluntary sales of private shops that was put up for auction. This can be seen as a move by owners to try to beat the new CPF regulations, which disallows buyers to use their CPF savings to finance the purchase of non-residential properties from July 1 2006.

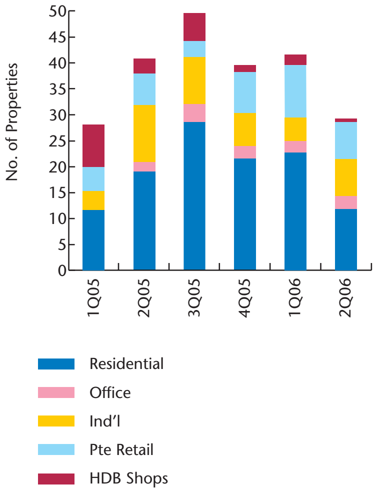
Chart 2

Types of Properties Put Up for Auction



Source: KF Auction / KF Research

Chart 3
The Number of Properties Sold at Auctions



Source: KF Auction / KF Research

Contrary to the trend seen in residential properties put up for auction by mortgagee's sale, only 37% of the total residential properties that were voluntarily put up for auction from non-mortgagee sources were mass-market properties. This was an indication of the willingness of more prime property owners to try the auction route to dispose of their properties even though they were able to sell their properties in the open market.

Properties Sold at Auction Dropped

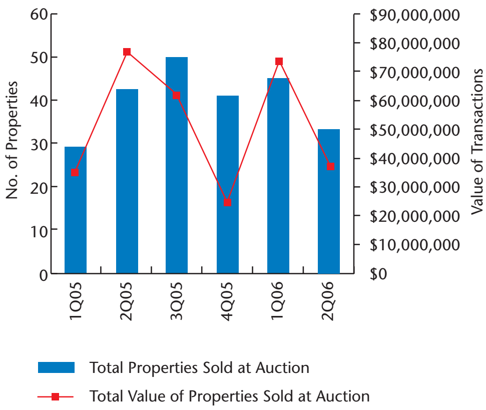
As compared to 2H 2005, the total number of properties sold at auctions in 1H 2006 dropped by about 15% to 77 units while the total value of properties sold at auctions remained relatively flat. Reasons for the recent descend in the number of properties sold at auctions included the volatile stock market, school holiday break, distractions from the World Cup and people's skepticism of the sustainability of the surge in the reserve prices of some properties. The high asking prices, especially in the low-end property segment, largely eroded the "value deals" that used to be the key attractions at auction sessions. The mismatch in seller's asking prices and buyer's willingness to pay reduced the activity in the auction market.

However, sentiments in the high-end residential properties were more optimistic. This segment had seen more demand from buyers who had profited from the recovery in the high-end property market, including former homeowners who had previously sold their properties collectively to developers for redevelopment. Armed with a premium from the sales proceeds, they were looking for auction properties with bigger floor areas for owner-occupation and at the same time, with a potential for future en bloc sale. This fresh interest and demand in this segment of the auction market can support a more sustainable uptrend in prices.

"Total number of properties sold at auctions in 1H 2006 dropped by about 15%"

Auction can also prove to be a useful means for high-end property owners to sell their properties in a shorter time frame and at their desired price. For example, an apartment at Aspen Heights and another at Villa Azura were sold respectively after an auction session in the first half of 2006 at sellers' indicated prices.

Chart 4
Number and Value of Transactions Sealed Under the Hammer



Source: KF Auction / KF Research

Outlook

In contrast to 1H 2006, which did not see many Good Class Bungalows (GCBs) and prime sites offered for auction, the auction market in 2H 2006 will start off with a line-up of GCBs to re-ignite interest and improve sales momentum.

For the rest of 2006, there will be a good stock of mass-market mortgagee's sale properties in the auction market. However, the number of high-end mortgagee's sale properties in District 9, 10, and 11 are likely to remain low. This is because as the high-end property market is expected to remain buoyant, there would be fewer foreclosures in this segment.

Going forward, there will also be more non-residential properties that will be put up for auction by mortgagee's sales. For example, more HDB shops will be put up for auction, as shopping malls become a severe threat to HDB shop's businesses. Likewise, auction of lock-up stalls and hawker stalls will become a norm in auction sessions. Strata factories in outlying areas such as Woodlands Link, Kaki Bukit and Mandai are another types of properties that will become more common in the auction market.

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